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**JLARC**



STATE OF WASHINGTON  
OFFICE OF FINANCIAL MANAGEMENT

1000 Third Building, PO Box 43111 • Olympia, Washington 98504-3111 • (360) 902-0535

February 25, 1998

Cheryle Broom, Legislative Auditor  
Joint Legislative Audit and Review Committee  
506 16<sup>th</sup> Avenue SE  
Post Office Box 40910  
Olympia Washington 98504-0910

Dear Ms. Broom. *Cheryle*

I am writing in response to your request for the Office of Financial Management's formal response to the revised preliminary report of the Department of Transportation Highways and Rail Programs performance audit that was presented to the Joint Legislative Audit and Review Committee (JLARC) on February 9, 1998. It should be noted that our response reflects and acknowledges the briefing paper that the Department of Transportation provided to the Senate Transportation Committee on February 18, 1998.

The enclosed table summarizes our responses to the revised preliminary report. We are encouraged by the responses of the Department of Transportation and look forward to more information regarding timelines for implementation and mechanisms for capturing and displaying program cost savings.

I appreciate the opportunity to respond to the revised preliminary report. Please do not hesitate to contact me if you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Dick".

Dick Thompson  
Director

DT:DV:dh  
Enclosure

RECOMMENDATION	AGENCY POSITION	COMMENTS
Recommendation 1: WSDOT has made positive steps to clarify its process for identifying and selecting pavement projects. The Department should not only approve proposals now under consideration, but also put in place an action plan that monitors compliance with, and progress toward, implementing and applying these steps.	Partially Concur	The Department should not only continue to monitor and communicate the distribution of pavement lives, but should also be prepared to address alternative strategies and methods should the pavement lives not move toward the 15-year assumption
Recommendation 2: WSDOT should consider including pavement roughness, in addition to PSC and rutting, in its candidate pavement project thresholds.	Concur	
Recommendation 3: The Department and the legislature should discuss the nature of current highway program coordination and consider alternative approaches based upon forecasts of maintenance needs concurrently with forecasts of preservation and improvement needs for the coming biennium.	Concur	
Recommendation 4: WSDOT should reduce its avoidable change orders that yield no added value to projects.	Concur	
Recommendation 5: WSDOT should consider enhancing capabilities among its suite of management and financial accounting systems to provide a stronger capability to view project histories through all phases from design through construction completion.	Concur	

RECOMMENDATION	AGENCY POSITION	COMMENTS
<p>Recommendation 6: Implement new legislation to encourage and facilitate expanded use of privatization where appropriate. Specifically, the legislation should provide WSDOT management with the flexibility to evaluate and select the most cost-effective resources to perform highway maintenance. An environment that fairly and consistently considers the capabilities of both private sector contractors and state work forces should be key to the new legislation and guide WSDOT implementation of maintenance contracting.</p>	Partially Concur	<p>A key element in any such legislation related to managed competition is collective bargaining on economic issues. State work forces need the flexibility to meaningfully participate in a managed competition environment. State workers should be able to compete with the private sector in this limited area.</p>
<p>Recommendation 7: If the implementing legislation is passed, WSDOT should consider a pilot project to explore different ways of delivering maintenance services. Managed competition offers potential cost savings and places public and private sector providers on a level playing field to compete for maintenance work.</p>	Partially Concur	Same as Recommendation 6.
<p>Recommendation 8: The Legislature should repeal the "largest city" rule in the Prevailing Wage statutes (RCW 39.12), which mandates that the wage for each labor classification for each county will be based on the prevailing wage for the largest city in the county. A "county majority rule" should replace the existing "city majority rule."</p>	Concur	

RECOMMENDATION	AGENCY POSITION	COMMENTS
<p>Recommendation 9: The Washington State Legislature should budget funds for the Wetlands Bank. This has considerable promise to significantly reduce environmental costs of transportation projects; greatly cut planning, regulatory and permit approval, and construction time requirements; and produce superior environmental protection.</p>	Concur	
<p>Recommendation 10: WSDOT should speed efforts to implement an environmental costing system consistent with the intentions of SB 5572.</p>	Concur	
<p>Recommendation 11: WSDOT should work with the federal government; other state and local governmental units, particularly with the state of Washington; professional societies such as the Transportation Research Board, the American Association of State Highway and Transportation Officials, the Government Finance Officers Association; and with academic institutions to work towards a common definition of environmental costs and benefits and a common database of such costs to be available to DOTs and other users and interested parties.</p>	Concur	

RECOMMENDATION	AGENCY POSITION	COMMENTS
Recommendation 12: Continued periodic review and analysis of the Grain Train Project be undertaken in a benefit/cost framework to monitor both changes in the economic impacts of the project as evaluated in the original 1996 report, as well as changes in the conditions affecting the performance of the project vis-à-vis state, program, and project goals and policy objectives.	Concur	
Recommendation 13: Analytical techniques be reviewed and updated to assure consistency with state-of-the-practice techniques and data, and that documentation be provided in instances where alternative approaches are used.	Concur	
Recommendation 14: More rigorous market analysis be considered to assess the impact of the project on preservation of light density rail lines over which existing cars are now being operated, and other potential lines where similar conditions exist and where similar initiatives might be considered.	Concur	
Recommendation 15: Continued economic analysis be undertaken to assess the factors and conditions that may impact the choice of options in the future for operation of the Grain Train, including divestiture by the state of its ownership of the rolling stock, should policy-makers choose this option.	Concur	

RECOMMENDATION	AGENCY POSITION	COMMENTS
<p>Recommendation 16: WSDOT should assess the need for and value of improved summary materials for decision-makers and other key stakeholders that consistently and regularly address a broader range of program elements and contextual conditions, in addition to the intermittent updates on selected program milestones currently being provided.</p>	<p>Concur</p>	



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STATE OF WASHINGTON  
DEPARTMENT OF LABOR AND INDUSTRIES  
PO BOX 44540, OLYMPIA, WASHINGTON 98504-4540  
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March 2, 1998

Cheryle A. Broom, Legislative Auditor  
Joint Legislative Audit and Review Committee  
506 16<sup>th</sup> Avenue South East  
Olympia, Washington 98501-2323

**RE: RECOMMENDATION 8, REPEAL OF THE "LARGEST CITY" DEFINITION  
OF PREVAILING WAGE IN RCW 39.12.010.**

Dear Ms. Broom:

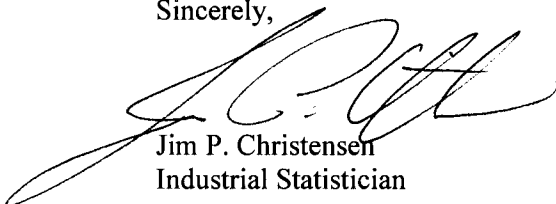
Director Gary Moore appreciates the opportunity to provide a response to the recommendation of the Committee regarding prevailing wages, and has asked me to provide the following.

The auditor in this case considered the potential effect of this change using past wage surveys, and it appears that the impact would be minimal. The auditor considered both a *county majority* and *county average* alternative, but made the assumption that the popular "majority" definition would be retained even if the "largest city" stipulation were repealed. I make the same assumption, particularly after review of the auditor's findings.

As you may be aware, prevailing wage regulation at the department level is primarily shaped through an ongoing process of stakeholder consensus. I anticipate that the Prevailing Wage Advisory Committee will consider this recommendation at their next meeting in April. While I anticipate a favorable review, it would be premature for me to either support or oppose this recommendation without that Committee's input.

Again, the department very much appreciates this, or any other, opportunity to provide information regarding the administration of prevailing wage law. Please do not hesitate to contact me at (360) 902-5330 for any reason.

Sincerely,



Jim P. Christensen  
Industrial Statistician

Cc: Bob Thomas, Principal Management Auditor/Supervisor  
Gary Moore, Director

**Department of Transportation**  
**Response to Joint Legislative Audit and Review Committee's**  
**Preliminary Report of the**  
**DOT Highways and Rail Programs Performance Audit**

The Department of Transportation welcomed the thorough review mandated by the 1997 Legislature and the professional conduct of this audit. Furthermore, the Department concurs with the recommendations made in this report and has or will implement the proposed changes as part of its continuous improvement journey. Where implementation of the recommendations requires concurrence or actions by the Legislature and/or other stakeholders, the Department will continue to advocate for the recommended changes and cooperate fully with all interested parties.

The detailed responses follow:

***Recommendation 1***

The Washington State Department of Transportation should continue to take positive steps to clarify its process for identifying and selecting pavement projects. The Department should not only approve proposals now under consideration, but also put in place an action plan that monitors compliance with, and progress toward, implementing and applying these steps.

Legislation Required:	None
Fiscal Impact:	None
Completion Date:	September 1998

Agency Response:	Concur
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These changes have already been implemented in 1997 as the Department continues to moves towards a lowest life-cycle cost approach to pavements.

***Recommendation 2***

The Washington State Department of Transportation should consider including pavement roughness, in addition to Pavement Structural Condition and rutting, in its candidate pavement project thresholds.

Legislation Required:	None
Fiscal Impact:	None
Completion Date:	April 1999

Agency Response:	Concur.
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The Department already considers roughness in its rehabilitation of concrete pavements. The recent "dowel bar retrofit" on the Interstate system is an example. Asphalt and chip seal pavements crack before roughness becomes an issue.

### ***Recommendation 3***

The Washington State Department of Transportation and the Legislature should discuss the nature of current highway program coordination and consider alternative approaches based upon forecasts of maintenance needs concurrently with forecasts of preservation and improvement needs for the coming biennium.

Legislation Required:	None
Fiscal Impact:	None
Completion Date:	April 1999

Agency Response: Concur with the recommendation.

To fully implement this recommendation requires system changes and enhancements. All available current information technology resources are dedicated to the Year 2000 effort. The Department will include this recommendation as part of its 1999-01 biennial budget request to the Transportation Commission, the Governor and the Legislature. However, the completion date will depend on legislative and gubernatorial authorizations.

### ***Recommendation 4***

The Washington State Department of Transportation should develop, implement, and enforce clearer guidelines on the assignment of causes of change orders, reducing the use of "Other" to those situations that literally are not covered by more definitive reasons, and promoting consistency among Regions on the interpretation and use of specific causes.

Legislation Required:	None
Fiscal Impact:	Can contribute to long-term cost effectiveness when coupled with actions under Recommendation 5; savings are indeterminate
Completion Date:	April 1999

Agency Response: Concur.

The Department has recognized this need and will continue to work on clarifying guidelines and regional consistency.

### ***Recommendation 5***

The Washington State Department of Transportation should reduce its avoidable change orders that yield no added value to projects.

Legislation Required:	None
Fiscal Impact:	Cost savings of up to \$6 million per biennium is a reasonable target
Completion Date:	Procedures by September 1998, with monitoring thereafter

Agency Response: Concur.

Efforts to improve the processes are already underway. A new constructability review process has been developed on pilot projects. Once the results of the pilot projects are fully available and analyzed, the new procedures will be fully implemented for projects advertised after July 1, 1999.

### ***Recommendation 6***

The Washington State Department of Transportation should develop an action plan to achieve these cost savings, and report periodically to the Legislative Transportation Committee on the status of this effort, including statistics giving the breakdown of change orders by cause, frequency of occurrence, and dollar value over time.

Legislation Required:	None
Fiscal Impact:	See Recommendation 5
Completion Date:	Discuss reporting procedures and frequency with LTC to reach agreement by June 1998; reporting according to agreed-upon schedule thereafter

Agency Response: Concur.

However, once the new processes are implemented, attributable cost savings may be better defined as "cost avoidance."

### ***Recommendation 7***

The Washington State Department of Transportation should continue its current steps to streamline project development procedures, collaborate with the private sector in unique design situations, and develop a more effective relationship between the Olympia Service Center and the regions.

Legislation Required:	None
Fiscal Impact:	Potential cost savings may be realized from these actions, together with improvements in service; dollar savings are indeterminate
Completion Date:	These steps are already underway; process should continue
Agency Response:	Concur:

These efforts are part of the Department's emphasis on continuous improvement.

### ***Recommendation 8***

The Washington State Department of Transportation should incorporate those lessons from DuPont that are replicable to other projects within its approach to design, environmental assessment, right-of-way acquisition, and construction, as appropriate for different types of projects.

Legislation Required:	None
Fiscal Impact:	Potential cost savings may be realized from these actions, together with improvements in service; dollar savings are indeterminate
Completion Date:	These steps are already underway; process should continue
Agency Response:	Concur.

See comments on Recommendation 7 above.

### ***Recommendation 9***

The Washington State Department of Transportation should consider enhancing capabilities among its suite of management and financial accounting systems to provide a stronger capability to view project histories through all phases from design through construction completion.

Legislation Required:	None
Fiscal Impact:	\$100,000 for review and conceptual design
Completion Date:	April 1999

Agency Response: Concur with the recommendation, but not with the estimated cost and completion date.

Given the current effort on Year 2000, the Department has no available resources to devote to this effort. The Department will include the recommended enhancements in its 1999-01 budget submittal to the Transportation Commission, the Governor and the Legislature.

### ***Recommendation 10***

Implement new legislation to encourage and facilitate expanded use of privatization where appropriate. Specifically, the legislation should provide the Washington State Department of Transportation management with the flexibility to evaluate and select the most cost-effective resources to perform highway maintenance. An environment that fairly and consistently considers the capabilities of both private sector contractors and state work forces should be key to the new legislation and guide the Washington State Department of Transportation implementation of maintenance contracting.

Legislation Required:	Yes (new state statute to define WSDOT's authority to apply state forces and contractors to normal highway maintenance)
Fiscal Impact:	See Recommendation 11 for potential for cost savings
Completion Date:	July 1999

Agency Response: Concur.

The completion date is subject to legislative and gubernatorial actions and eventual savings will depend on the outsourced components of the maintenance program.

### ***Recommendation 11***

If the implementing legislation is passed, the Washington State Department of Transportation should consider a pilot project to explore different ways of delivering maintenance services. Managed competition offers potential cost savings and places public and private sector providers on a level playing field to compete for maintenance work.

Legislation Required:	Yes (see Recommendation 6)
Fiscal Impact:	Initial cost savings of \$5 to \$6 million per biennium is a reasonable target; also see Recommendation 24
Completion Date:	December 2000

Agency Response: Concur.

See comment on Recommendation 10 above.

### ***Recommendation 12***

The Washington State Legislature should repeal the “largest city rule” in the Prevailing Wage Statutes (RCW 39.12), which mandates that the wage for each labor classification for each county will be based on the prevailing wage for the largest city in the county. A “county majority rule” should replace the existing “city majority rule.”

Legislation Required:	Yes (amendment of RCW 39.12)
Fiscal Impact:	None
Completion Date:	July 2000

Agency Response: Concur.

The completion date will depend on the Legislature’s willingness to change RCW 39.12.

### ***Recommendation 13***

The Washington State Legislature should budget funds for the Wetlands Bank. This has considerable promise to significantly reduce environmental costs of transportation projects; greatly cut planning, regulatory and permit approval, and construction time requirements; and produce superior environmental protection.

Legislation Required:	Yes (inclusion in WSDOT budget)
Fiscal Impact:	Initial seed funding of Wetlands Bank; WSDOT has proposed \$10 million, which is reasonable; projected 50 percent savings in costs of wetlands mitigation over long term
Completion Date:	July 1999

Agency Response: Concur.

The funding level will depend on legislative and gubernatorial actions. Realistic estimates of savings will depend on work that is currently underway but not yet completed.

### ***Recommendation 14***

The Washington State Department of Transportation should speed efforts to implement an environmental costing system consistent with the intentions of SB 5572. It should develop a comprehensive environmental decision model that:

- Recognizes environmental benefits, as well as environmental costs.
- Attempts to comprehensively recognize all significant costs and benefits, including those that are not generally expressed in financial terms, such as quality of life, biodiversity, public health and safety, and delay of achievement of benefits due to regulatory compliance requirements.
- Where possible and practical, costs and benefits should be expressed in monetary terms; where monetarization is not possible, costs and benefits should be quantified in non-monetary terms; and where when quantification is not possible, costs and benefits should be identified and measured in qualitative terms.

Legislation Required:	None
Fiscal Impact:	None
Completion Date:	Begin conceptual design immediately, for completion by April 1999

Agency Response: Concur with the recommendation.

However, the Department does expect fiscal impacts: Models and modeling techniques will have to be either established or purchased and systems will have to be changed to implement and track the newly developed techniques. As stated before, all current information technology resources are devoted to accomplishing the Year 2000 effort, placing the completion date in all likelihood beyond April 1999.

### ***Recommendation 15***

The Washington State Department of Transportation should work with the federal government; other state and local governmental units, particularly within the state of Washington; professional societies such as the Transportation Research Board, the American Association of State Highway and Transportation Officials, the Government Finance Officers Association; and with academic institutions to work towards a common definition of environmental costs and benefits and a common database of such costs to be available to the Department of Transportation and other users and interested parties.

Legislation Required: None  
Fiscal Impact: None  
Completion Date: April 1999

Agency Response: Concur with the recommendation.

The completion date may not be accomplished since current efforts are still in their infancy. The Department expects to be ready with a proposal in time for the 2001-03 biennial budget submittal.

### ***Recommendation 16***

Continued periodic review and analysis of the Grain Train Project should be undertaken in a benefit/cost framework to monitor both changes in the economic impacts of the project as evaluated in the original 1996 report, as well as changes in the conditions affecting the performance of the project vis-a-vis state, program, and project goals and policy objectives.

Legislation Required: None  
Fiscal Impact: None  
Completion Date: December 1998

Agency Response: Concur.

A new analytical model using Federal Railroad Administration and Federal Highway Administration guidelines was developed and completed in August 1997. A new analysis is underway and expected to be completed Prior to the recommended completion date.

### ***Recommendation 17***

Analytical techniques relating to the Grain Train Project should be reviewed and updated to assure consistency with state-of-the-practice techniques and data, and that documentation be provided in instances where alternative approaches are used.

Legislation Required: None  
Fiscal Impact: None  
Completion Date: December 1998

Agency Response: Concur.

See comments on Recommendation 12.

### ***Recommendation 18***

More rigorous market analysis relating to the Grain Train should be considered to assess the impact of the project on preservation of light-density rail lines over which existing cars are now being operated, and other potential lines where similar conditions exist and where similar initiatives might be considered.

Legislation Required:	None
Fiscal Impact:	None
Completion Date:	July 1999

Agency Response: Concur.

See comments on Recommendation 12.

### ***Recommendation 19***

Continued economic analysis should be undertaken to assess the factors and conditions that may impact the choice of options in the future for operation of the Grain Train, including divestiture by the state of its ownership of the rolling stock, should policy-makers choose this option.

Legislation Required:	None
Fiscal Impact:	None
Completion Date:	July 1999

Agency Response: Concur.

An independent analysis was presented to the Legislature in December 1997. Continuing, ongoing economic analyses will require additional resources.

### ***Recommendation 20***

The Washington State Department of Transportation should assess the need for improved summary materials on the passenger rail program, which would consistently and regularly address a broader range of program elements and contexts for use by decision-makers and other key stakeholders. These materials would be in addition to the intermittent updates on selected program milestones currently being provided.

Legislation Required:	None
Fiscal Impact:	None
Completion Date:	December 1998

Agency Response: Concur.

An updated twenty year plan was recently completed and the Department has committed to summarize progress in semi-annual reports to the legislature. In addition, efforts are currently underway to establish, use and report consistent performance measures.

### ***Recommendation 21***

The Washington State Department of Transportation's current management systems should be enhanced to provide easier and more reliable mechanisms to track costs of projects and key activities, based upon Activity-Based-Costing concepts. These enhancements should enable the Department to understand better its current cost structure, the factors that influence highway project and

program costs, and the corresponding costs of alternative ways to accomplish work.

Legislation Required:	None
Fiscal Impact:	\$100,000 for review and conceptual design; coordinate with Recommendation 9
Completion Date:	April 1999

Agency Response: Concur with the recommendation, but not with the cost or completion date.

The Department anticipates major data architecture and system enhancement efforts to implement this recommendation. These efforts will depend on the availability of information technology resources, currently devoted to the Year 2000 effort, and on future budget decisions by the Transportation Commission, the Legislature and the Governor.

### ***Recommendation 22***

Guidelines for the input of data to management and financial systems should be clarified by examples to indicate correct and consistent assignment of codes from the Chart of Accounts, so that these data support an accurate picture of activity-based costs within the Department. Enforcement of these guidelines should be considered by the Washington State Department of Transportation internal audit function.

Legislation Required:	None
Fiscal Impact:	None
Completion Date:	December 1998

Agency Response: Concur.

The Chart of Accounts clarifications will be included in the upcoming revision and supported by additional training efforts.

### ***Recommendation 23***

Develop the principles, strategies and goals necessary to guide the Washington State Department of Transportation's management of the evaluation of its business. Pilot efforts that are undertaken by the Department in outsourcing or managed competition should be designed based upon the Department's and its stakeholders' thinking on its strategic business approach.

Legislation Required:	None
Fiscal Impact:	None
Completion Date:	July 1999

Agency Response: Concur.

The Department is currently engaged in refining and updating the agency strategic plan and is committed to establishing and reporting performance measurements and indicators for all its programs, products and services. The Department is also engaged in developing the principles and strategies necessary to successfully undertake outsourcing and managed



competition. The eventual pilot efforts will depend on legislative and gubernatorial authorization and concurrence.

#### ***Recommendation 24***

Provide training to the Washington State Department of Transportation employees to assist them in reengineering their work approaches and empowering them to be competitive within the pilot efforts that are undertaken.

Legislation Required:	None
Fiscal Impact:	\$250,000 to \$500,000 to apply the ABC cost approach to selected WSDOT functions, provide assistance to employees in reengineering their work process, assist in bid review for managed competition, and provide training to employees on the managed competition environment. Cost savings associated with this effort are identified in Recommendation 11.
Completion Date:	July 2000; coordinate with Recommendation 11

Agency Response: Concur with the recommendation.

The fiscal impact will depend on the level of effort required. The resource requirement can only be defined once the Department's approach has been established and approved by the Washington State Transportation Commission, external decision makers and stakeholders. The completion date is subject to legislative and gubernatorial actions.

#### ***Recommendation 25***

The evaluation of the pilot effort should be made within the context of the proposed business approach, and should compare the relative costs, cost savings and risks of the piloted approach versus current practice.

Legislation Required:	None
Fiscal Impact:	None
Completion Date:	July 2000; coordinate with Recommendation 11

Agency Response: Concur.

See comments to Recommendation 20 above.

#### ***Recommendation 26***

Guidelines on implementing new ways of delivering departmental services, and on tracking and reporting the performance and costs of current and new delivery mechanisms, should be issued, interpreted, implemented, and managed consistently across the Washington State Department of Transportation Regions. The focus should be on ensuring that department-wide needs for consistency and standards are addressed without jeopardizing the regional need for flexibility in meeting local service requirements.

Legislation Required:	None
Fiscal Impact:	None
Completion Date:	July 1999

Agency Response: Concur with the recommendation.

This effort will be supported by the continuing emphasis on the use of quality tools and principles throughout the Department as well as the current work on performance based budgeting and reporting. System enhancements to allow ready visibility of these measurements will depend on the completion of the Year 2000 effort and resource decisions on future budget submittals. The July 1999 deadline does not seem to be realistic